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IRS vs. CIA

Big Tax Investigation Was Quietly Scuttled By Intelligence Agency

Bahamian Bank's Hundreds Of U.S. Account Holders Go Unchecked as a Result

SEC Runs Into a Stone Wall

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NASSAU, Bahamas—One of the more titillating business stories that somehow managed to reach the public prints in the last decade was the great Castle Bank caper.

Remember? It was the escapade in which two Internal Revenue Service agents outdid themselves as sleuths only to have their chief throw out their hard-gained evidence of possible massive tax evasion as inadmissible.

For years IRS agents had been trying, without much success, to obtain documentary proof that Americans were using offshore banks in the Caribbean to hide income and evade taxes. One of the suspect banks was the privately owned, Nassau-based Castle Bank & Trust (Bahamas) Ltd. So one night in 1973, while an official of the Castle Bank was having dinner at a posh Key Biscayne, Fla., restaurant with a woman an IRS informant had hired as a decoy, the informant let himself into her apartment, took the banker's briefcase and gave it to two IRS agents. After photographing the briefcase's contents, the agents had the briefcase returned to the woman's apartment and, for the time being at least, the banker was none the wiser.

A Rich Haul

The photographed documents were a revelation. One of them was a computer print-out of the bank's account holders—some 308 names, including not only nationally known U.S. businessmen and entertainers but quite a few well-known organized-crime figures as well. The account holders controlled about a quarter of a billion dollars in assets. To the jubilant agents the list presented the possibility of the single biggest tax-evasion strike in IRS history.

Their elation eventually faded, however, after Donald Alexander, then the IRS commissioner, announced that Project Haven, as the Caribbean investigation was called, was being suspended because the surreptitious acquisition of the list was an illegal search. The Justice Department, which launched a grand-jury investigation after the IRS dropped out of the picture, said in 1977 that it, too, was bowing out because a federal district court judge had ruled that the list had been illegally obtained.

It now appears that pressure from the Central Intelligence Agency, rather than any legal problem, was what caused the Justice Department to drop what could have been the biggest tax-evasion case of all time. Moreover, the supposed legal obstacle to using the Castle Bank depositors' list was questionable at best—the government already had in its possession the same list, legally obtained.

What caused the Justice Department to back off seems to have been the CIA's argument that pursuit of the Castle Bank would endanger "national security." This was involved because the bank, besides its possible use as a haven for tax evaders, was the conduit for millions of dollars earmarked by the CIA for the funding of clandestine operations against Cuba and for other covert intelligence operations directed at countries in Latin America and the Far East. A major tax-evasion investigation of the bank probably would have endangered these CIA operations.

Drafting a New CIA Charter

The case has current significance because Congress at the moment is considering a new CIA charter that would give congressional committees and the courts advance notice of such undercover or front operations.

Castle Bank was set up and principally controlled by the late Paul Lionel Edward Hellwell, a Miami lawyer. Mr. Hellwell, who had longstanding ties to the U.S. intelligence community, was instrumental in helping to direct a network of CIA undercover operations and "proprietaries." (A proprietary is a concern secretly set up and controlled by the CIA, ostensibly as a legitimate business.)

Despite repeated requests for comment, officials at the CIA, Justice Department and the Hellwell law firm refuse to discuss the case. Castle Bank, which closed its operations in the Bahamas and Cayman Islands in 1977, is currently based in Panama, but apparently has no offices there. Although the government has never released the names of Castle Bank's 1973 account holders, a copy of the list was reviewed by this newspaper.

Playboy and Penthouse

On the list, either in their own names or under the names of trusts or companies they controlled, were such people as Chicago's wealthy Pritzker family, Detroit land developer Arnold Aronoff, Playboy magazine publisher Hugh Hefner, Penthouse magazine owner Robert Guccione, actor Tony Curtis, the former rock group Creedence Clearwater, and three men—Morris Dalitz, Morris Kleinman and Samuel A. Tucker—who have been described in Justice Department documents as organized-crime figures.

Of course, having money on deposit in a foreign bank, by itself, is no evidence of wrongdoing. None of the above individuals, with the exception of Mr. Hefner, returned phone calls inquiring about the accounts. A spokesman for the Playboy publisher says Mr. Hefner "doesn't remember" having an account at Castle, though he does recall investing in a movie company that dealt with the bank.

The bulk of the Castle accounts are in the names of foreign entities, mostly Bahamian.

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or Panamanian, according to the list. Other documents in Nassau show that the common thread of these companies is that they were mostly formed or controlled by Paul Hellwell and his associates.

The gruff Mr. Hellwell, 62 when he died on Christmas Eve, 1976, from emphysema complications, was no stranger to the murky world of spying. During World War II, he was chief of special intelligence in China for the Office of Strategic Services, or OSS, the forerunner of the CIA.

Colleagues from those days recall that Mr. Hellwell, then a colonel, regularly used to buy information with five-pound shipments of opium ("three sticky brown bars," according to one man). They also say he ran an operation code-named "Deer Mission," in which OSS personnel secretly parachuted into Indochina to treat Ho Chi Minh for malaria.

In 1951, Mr. Hellwell helped set up and run Sea Supply Corp., a concern controlled by the CIA as a front. For almost 10 years, Sea Supply was used to supply huge amounts of weapons and equipment to 10,000 Nationalist Chinese troops in Burma as well as to Thailand's police.

One former federal official who helped scrutinize Castle says, "Castle was one of the CIA's finance channels for operations against Cuba." Mr. Hellwell reputedly was one of the paymasters for the ill-fated Bay of Pigs invasion in 1961, as well as for other "extensive" CIA operations throughout Latin America. In particular, the former federal official says, Mr. Hellwell was "deeply involved" in financing a series of covert forays between 1964 and 1975 against Cuba by CIA operatives working from Andros Island, the largest of the Bahamian islands.

Retired CIA general counsel Lawrence Houston, while declining to talk about specific agency activities, comments that "Paul was always willing to talk to us and help us."

A Blow for IRS Agents

A former member of Mr. Hellwell's law firm says it was general knowledge among the firm's members "that Castle was a CIA account," but that only Mr. Hellwell and two other lawyers had access to any information on the bank. He recalls one incident in the late 1960s when "the CIA had arranged to transfer a huge amount of money

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through Castle," and that "Paul put the whole office on a security alert like it was some kind of war operation."

Dropping of Project Haven by the IRS caused tremendous turmoil within the tax-collecting agency. One IRS memo says that when the investigation was shut down there were 488 pending cases involving tax deficiencies of "hundreds of millions" of dollars. Many veteran IRS agents resigned. To this day the drain of taxable money through Bahamas banks is continuing, largely because that country's strict disclosure laws prevent outsiders from obtaining banking records. A 1979 study of offshore banking, prepared for the Ford Foundation, concludes that the "flow of criminal and tax evasion money" into the Bahamas alone is "up to \$20 billion annually."

After the Justice Department took over the investigation in 1976, an IRS blunder further undermined the probe. Burton W. Kanter, a Chicago tax lawyer, was mistakenly given 80 pages of secret IRS documents outlining the government's case. Incredibly, Mr. Kanter was given the material after filing a routine request under the Freedom of Information Act. An embarrassed IRS official termed the mistake "a royal screwup."

A Second List Turns Up

The incident that apparently finished off the investigation occurred in 1977. A federal judge in Cleveland ruled that the account-holder list had been illegally obtained and couldn't be used as evidence in criminal cases. The ruling came in the case of Jack Payner, an Ohio businessman who had been charged with failing to report that he had a trust account at Castle. The Payner case is currently pending before the U.S. Supreme Court. But the Justice Department and IRS used the trial judge's ruling as the basis for ending the investigation in 1977, documents show.

This occurred despite the fact that a second list of Castle account holders had been obtained in response to a Justice Department grand-jury subpoena in February, 1976, for records at the Bank of Perrine, one of two small South Florida banks owned by Florida Shares Inc., a holding company controlled by Paul Helliwell and his associates. At the time, Bank of Perrine was Castle Bank's principal U.S. correspondent bank.

This second list, according to former federal investigators, was never used but was sent to the Justice Department in Wash-

ington at the request of officials there.

Lists aside, the Justice Department probably could have pursued the tax-evasion probe because it already had bagged a prosecution prize in the form of Anthony R. Field, the manager of Castle's Cayman Islands branch.

In July, 1978, two Justice Department lawyers interviewed Mr. Field in England where he now lives. After giving the lawyers "a gold mine of information about Castle," a tentative agreement reportedly was struck whereby Mr. Field would testify in the U.S. in exchange for immunity and the dismissal of an earlier indictment against him involving Castle Bank transactions.

Rejection by the Brass

The deal, however, was rejected by officials in Washington. One Justice Department lawyer says, "It has always mystified me. There was never really an explanation, just 'No Deal.'" Mr. Field couldn't be reached for comment.

Another government official close to the Castle investigation says, "There was nothing sinister about why it (the investigation) didn't go anywhere. The CIA convinced Justice that exposure of Castle and, of necessity, other Helliwell dealings, would compromise very sensitive and very significant intelligence operations. It's as simple as that."

It was the CIA's Office of General Counsel that apparently repeatedly requested the Justice Department to back away from Castle. A federal attorney says he first learned of the CIA's involvement when John J. Greaney, a CIA attorney, asked Justice "to keep out of certain accounts at Castle because they were run by the agency." Mr. Greaney, now retired, says he is prohibited from discussing any work he did for the CIA.

Other U.S. agencies were involved in Castle Bank's mysterious maneuverings. An affidavit by a State Department official on one occasion warned a federal court against "the anticipated revelation of illegal pay-offs" in the Bahamas. The official further counseled against the disclosure of one U.S. diplomatic cable concerning Castle because the contents "would have a bombshell effect" on U.S.-Bahamas relations.

The Intercontinental Case

The Securities and Exchange Commission found itself trying—unsuccessfully—to get records from Castle in a case involving

Intercontinental Diversified Corp. after more than \$3 million inexplicably disappeared from that company. Intercontinental, a Bahamian holding company with interests in real estate, utilities and harbor management, was until recently listed on the New York Stock Exchange. It is now in the process of reorganization as an enterprise to be partially owned by the Bahamian government.

In 1978 Intercontinental signed a consent order with the SEC agreeing not to violate U.S. securities laws but neither admitting nor denying guilt for the diversion of the funds. As part of the settlement, Intercontinental's audit committee agreed to make its own investigation of the missing funds. Nearly \$3 million of the money was recovered from a bank in Canada but then another \$1.3 million was discovered to be missing. A "substantial portion" of the missing money was found to have moved through Castle Bank as a conduit. Typically, the bank refused to supply Intercontinental's own investigators with bank records or other information about where the money went, citing the Bahamian Bank Secrecy Law.

At the time of the Intercontinental consent decree, the SEC also disciplined Mary Jane Melrose, 61, former vice president, general counsel and director of Intercontinental for her alleged participation in a scheme to hide the diversion of \$1.3 million of the company's funds. Besides her position at Intercontinental, Mrs. Melrose was also the second ranking member of Paul Helliwell's Miami law firm, Helliwell, Melrose & DeWolf. She refuses to discuss the Intercontinental case.

Although there is no reference to the CIA in the SEC proceedings concerning Intercontinental, a former CIA official in a recent interview made an astonishing statement. He said that between 1970 and 1976, almost \$5 million of Intercontinental funds was siphoned out for the agency's use "because we had friends there." Indeed, the CIA apparently had a better arrangement than mere friendship.

An Influential Friend

CIA documents show that Wallace Groves, 79, the founder of Intercontinental and holder of 46% of its shares until he sold his interest for \$33.1 million in 1978, was secretly working for the CIA from 1965 to 1972. Mr. Groves, a one-time Wall Street financier who served a two-year prison term in the early 1940s for fraudulent use of the mails to sell stock, later became one of the Bahamas' leading businessmen, developing the port at Freeport and bringing big-time gambling casinos to the islands.

A Dec. 30, 1965, Covert Security Approval

Issued by the CIA's Office of Security, marked "Secret," says Mr. Groves "will be used as an adviser and possible officer for one of (the CIA's) Project entities" that isn't further identified, and that "he will be made witting" of the CIA's involvement. Under the CIA's setup, persons thus approved assist the agency's clandestine services in carrying out operations that range from funding political parties to organizing coups.

In a separate CIA memo, two other Intercontinental officials were cited as receiving the same kind of CIA clearance in November, 1974, but the two individuals were not identified. Intercontinental's current management denies that anyone there ever worked for the CIA. Mr. Groves didn't return this reporter's phone calls.

Intercontinental's audit committee concedes that there is slight chance of recovering the money still missing. Nor is there any indication that the Justice Department will renew its interest in history's largest tax-evasion investigation. Jack Payner's case is still pending before the Supreme Court, but once that's decided, that's it. Government attorneys say the statute of limitations appears to have run out on most of the other possible defendants in the once promising tax investigation.